

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF)**

STAFF REPORT

EXECUTIVE SUMMARY

Name of Applicant: Capitol Area Development Authority	Requested Financing Amount: \$600,000
16 th and P/Powerhouse Alley Infrastructure Improvement Project	Requested Financing Term: 20 years
Project Address: Southeast corner of 16 th and P Streets and the alley between 16 th and 17 th Streets and P and Q Streets Sacramento, CA 95814	Interest Rate: 2.77%
	Tier: Tier 1
Project Description: The Project consists of the construction of the street improvements to 16 th and P Streets, and pavement of a two-way alley between 16th and 17th Streets and P and Q Streets.	
Use of Financing Proceeds: The ISRF Program proceeds will be used for construction, construction contingency, project management, engineering, architectural, design, permits and fiscal consultant report fees.	
Source of Repayment: Subordinate Lien on Tax Increment Revenues from the Original Area	Form of Financing Agreement: Tax Allocation Agreement
Scoring Criteria: <div style="display: flex; justify-content: space-between;"> <div> Project Impact Community Economic Need Land Use/Environmental Protection/Housing Element Leverage Readiness TOTAL </div> <div style="text-align: right;"> Actual Score 56 7 40 15 <u>10</u> 128 </div> </div>	
I-Bank Staff: Steve Grebner and Carlos Nakata	Date of Staff Report: August 7, 2013
Date of I-Bank Board Meeting: August 13, 2013	Resolution Number: 13-14
Staff Recommendation: Staff recommends approval of Resolution No.13-14 Authorizing financing for the Capitol Area Development Authority for the 16th and P/Powerhouse Alley Infrastructure Improvement Project in an amount not to exceed \$600,000, subject to conditions contained herein.	

PROJECT DESCRIPTION

Project Description

The Capitol Area Development Authority (CADA) is requesting ISRF Program financing for the 16th and P/Powerhouse Alley Infrastructure Improvement Project, which includes the construction of street improvements to 16th and P Streets, and pavement of a two-way alley between 16th and 17th Streets and P and Q Streets (Project) in the midtown area of the City of Sacramento (City) (see Exhibit 1- Maps).

The Project consists of the following components:

- Replacement of portions of existing sidewalk, curbs and gutters, and the installation of three storm water planters, a fire hydrant, two bulb-outs in the public right of way at the south east corner of 16th and P Streets, and two new acorn street lights on P Street, and does not include private development located at the corner of 16th and P Streets known as the East End Gateway Site 4 project.
- Pavement of a two-way alley between 16th and 17th Streets and P and Q Streets to replace an existing dirt/gravel surface, and the installation of three drains and two manhole covers in the alley. Other alley improvements include upgrades to sanitary sewer, water, fire flow and drainage facilities.

The Project is part of a larger private development project called the East End Gateway Site 4 (Gateway Development), a new mixed-use residential/retail construction project. CADA entered into a Disposition and Development Agreement, dated February 26, 2013, the First Amendment which is anticipated to be executed by August 13, 2013 (DDA—EEG 4), with 16 Powerhouse Investors, LLC (Developer) to demolish an existing motel and parking lot located on three parcels at 16th and P Streets currently owned by CADA and to redevelop the property into a 50 market rate residential units above 7,350 square feet of commercial retail space.

The Gateway Development will also include 47 parking spaces utilizing stackable parking which will be accomplished by excavating a six foot pit along with the construction of a vertical parking system that will allow for 2 cars per space. The DDA--EEG 4 anticipates that the Gateway Development and the Project will cost approximately \$16.8 million, with CADA contributing \$600,000 towards the Project (called "offsite" in the DDA—EEG 4). CADA's application indicates that the Gateway Development will be energy efficient and that the Developer will use reasonable efforts to incorporate all additional sustainable construction practices in the private project, and that the Developer also intends to follow the LEED Platinum scorecard. Furthermore, the Gateway Development will feature a gardening area for its residents to promote urban farming and gardening in the urban core of the City.

The Developer is owned 60% by Sac Urban Development, LLC, a California limited liability company, with Davoud Miryabianeh as its supervising member, and 40% by 16th

P Street Building, LLC, a California corporation, with Reza Abbaszadeh as its member and sole owner. The DDA—EEG 4 commits the Developer to finance a portion of and to construct the Project under a separate construction contract, along with financing and developing the Gateway Development. An operating agreement exists for the Gateway Development that requires Sac Urban Development, LLC to have responsibility for the day-to-day operation of the Gateway Development business activities.

CADA and the Capitol Area Plan

CADA, a joint powers authority between the State of California and the City of Sacramento, is responsible for administering the Capitol Area Plan, which is a progressive smart growth plan for blocks of downtown Sacramento blighted by acquisition and demolition activities undertaken for the construction of a State Capitol office campus in the 1960's (Capitol Area). According to a January 2012 Capitol Area Plan Progress Report (Progress Report), for close to 35 years, the California Department of General Services (DGS) and CADA have shared a commitment to the advancement of an active neighborhood of State offices and residential units located on State-owned land surrounding the State Capitol. Since 1977, the smart growth development of the Capitol Area has been guided by the Capitol Area Plan, the statutory master plan administered by the DGS. The DGS implements the office and parking elements of the plan and CADA implements the housing and retail elements.

The Progress Report also states that under the objectives of the Capitol Area Plan, State-owned land in the Capitol Area has supported the development of signature office projects promoting state-of-the-art sustainable and energy-efficient design features. These transit-oriented office projects, which often include ground-floor retail, child care, and public art displays, have resulted in a concentration of State employees to support local economic development efforts, while also supporting State policies and directives.

The Capitol Area Plan was last updated in 1997, and covers the area south of the State Capitol with a plan to transform the area into an urban village of state offices, housing, retail and parking; a place where residents can walk and bicycle, and where they have transit options to travel to work and entertainment destinations, thus reducing dependence on automobiles and improving regional air quality.

East End Gateway Projects

The Gateway Development is part of a larger CADA development plan that includes the East End Projects. The other East End Projects include:

East End Gateway 1: 16th and N Streets

In 2009, the CADA selected the team of Em Johnson Interest (now Urban Core LLC) and Nehemiah Community Reinvestment Fund Holdings to develop East End Gateway 1 (16th and N Street) as a 7-story mixed income 115 unit apartment development. This project is scheduled to start construction in February 2014.

East End Gateway 2 & 3: 16th and O Streets

Ravel Rasmussen and Separovich Domich have been selected to develop an 84 market rate apartment project above 13,000 feet of retail space on 16th Street. CADA has entered into a Fourth Amendment to a Disposition and Development Agreement for this project to be completed in September 2013

Capitol Lofts: 11th & R Streets

In 2009, \$4.9 million in Proposition 1C Infill Infrastructure Grant Program funds was awarded by the Department of Housing and Community Development in a state wide competition to Holliday Development, the developer selected by CADA for the Capitol Lofts site at 11th & R Streets. Originally proposed to be a market rate condominium development, the development now includes 116 rental housing units, of which 86 will have rents set at below market rates. Construction started in early 2013 and is expected to be completed in late 2014.

Site 9B: 1610 17th Street

CADA is anticipating executing a purchase agreement with a developer for this small 40' x 40' infill site.

Public Benefits/Economic Benefits

According to CADA, the Project and the Gateway Development will generally enhance the Capitol Area and directly positively enhance adjacently owned private properties. The Project and the Gateway Development are anticipated to spur owners of adjacent private properties to make further investments that will improve private parcels, which is anticipated to contribute to the economic vitality of the Capitol Area.

The proposed Project is expected to achieve residential and community-oriented goals identified in CADA's 1997 Capitol Area Plan, Including:

- Community Objective--To stimulate the development of a community within the Capitol Area which is attractive and comfortable to work in, live in, and visit, integrated into the fabric of the rest of the City, which development is physically and economically viable over the long term.
- Housing Objective: To foster housing within the Capitol Area meeting a wide range of income levels and encouraging a population consistent with its urban surroundings.

Additionally, CADA projects that the Project will assist with the following CADA 2008-2013 Strategic Plan goals and strategies to:

- Promote retail that contributes to neighborhood vitality.
- Create a community with distinct and appealing sense of place.
- Identify housing opportunity sites and advocate for higher density project.
- Provide neighborhood amenities and streetscape improvements.

For Project specific economic development benefits, CADA submitted a report from the Vivelan Group dated May 2012 (Vivelan Report). The Vivelan Report was part of an application for New Market Tax Credits for a proposed project similar to the Gateway Development located at the same site. The Vivelan Report described a 45 unit housing development (with 9 affordable units) over 7,700 feet of commercial space anticipated to be occupied by a grocery store and projected to cost approximately \$20 million. The Vivelan Report quoted an Implan report that was used to identify the direct and indirect impacts of the Vivelan project. The Implan model calculated that the Vivelan project would create 227 full-time construction-related jobs, and 31 full-time and 15 part-time retail jobs associated with the proposed grocery store. Staff has determined that the Gateway Development is similar enough to the project described in the Vivelan Report, and that the direct and indirect project impacts identified in the Vivelan Report would be representative of the Project.

Project Sources and Uses of Funds

The following chart reflects the Project budget.

PROJECT SOURCES and USES				
Uses	Sources			
	I-Bank	CADA	Developer	Total
Construction, Contingency and Project Management	\$ 600,000			\$ 600,000
Engineering, Architectural, Design, Permits, and Fiscal Consultant Report Fees ⁽¹⁾		\$ 7,000	\$ 77,042	\$ 84,042
I-Bank Origination Fee		\$ 10,000		\$ 10,000
Total	\$ 600,000	\$ 17,000	\$ 77,042	\$ 694,042

⁽¹⁾ CEQA is not included in the soft costs for the Project, but has been completed. See California Environmental Quality Act section below.

Under the DDA—EEG 4, CADA is responsible for financing \$600,000 of the “offsite” improvements. CADA submitted a construction cost breakdown for offsite improvements, and confirmed that offsite improvements are all part of the public infrastructure and do not include any private development costs. CADA submitted a paid invoice for the payment of the fiscal consultant report fees, and submitted a check for the payment of the I-Bank Origination Fee.

The Developer has committed its funds toward the Project soft costs in the DDA—EEG 4. The First Amendment to the DDA—EEG 4 will reflect the Gateway Development (and the Developer’s contribution to the Project as follows):

SOURCES	2nd DDA Amendment
Construction Financing	\$ 12,925,000
CADA Land Loan	\$ 408,230
Deferred Equity	\$ 2,000,000
Developer Equity	\$ 1,472,814
Total Construction Sources	\$ 16,806,044
USES	2nd DDA Amendment
Hard Costs	\$ 11,832,500
Land Acquisition	\$ 408,230
Soft Cost	\$ 2,574,296
Financing Costs	\$ 1,301,018
Developer Fee	\$ 690,000
Total Construction Costs	\$ 16,806,044

The source of the Developer's construction financing is a loan from Farmers and Merchants Bank of Central California (F&M Bank), which is both the construction and take out lender for the Gateway Development and the Developer financed portion of the Project. CADA has submitted the May 29, 2013 F&M Bank commitment letter that indicates the Developer must satisfy certain construction loan pre-closing requirements by August 13, 2013, including the I-Bank commitment of funds for the Project. The F&M Bank commitment letter also indicates that the F&M Bank will not disburse its funds until the Developer equity injection is on deposit with F&M Bank. As such, the ISRF Program loan agreement will include a pre-disbursement condition that CADA provide documentation acceptable to the I-Bank that the F&M Bank is ready to disburse Developer's construction loan.

The ISRF Program financing will be used to finance only the publicly-owned portions of the Project, and shall not include the Gateway Development or any related private development costs.

ELIGIBILITY CRITERIA

CADA and the Project meet all of the ISRF Program statutory and supplemental threshold eligibility criteria. Staff noted that there is potential private use under the DDA—EEG 4 for a portion of the alley component of the Project by a user of the retail space located in the Gateway Development. Staff conducted an analysis of the potential private use, and concluded that the area allowed for future private use represents approximately less than 3% of the costs of the I-Bank funding for the Project, which is an allowable amount under the current tax code.

GENERAL BORROWER INFORMATION

CADA is a joint powers authority between the State of California, acting through the Department of General Services (DGS) and the City and is duly organized and operating under a Joint Exercise of Powers Agreement (JPA) dated July 1, 1978 (as authorized in Government Code section 8169.4). As explained earlier, CADA and DGS are responsible for Capitol Area Plan, which is a progressive smart growth plan for blocks of downtown Sacramento blighted by acquisition and demolition activities undertaken for the construction of the State Capitol office campus in the 1960's (Capitol Area). The DGS implements the office and parking elements of the plan and CADA implements the housing and retail elements.

Additional legislation enacted in 1978 requires that CADA maintain 25 percent of its units at affordable rate levels for low-income households. CADA employees are not in civil service but are "at-will," and serve at the discretion of an Executive Director hired by a publicly appointed Board.

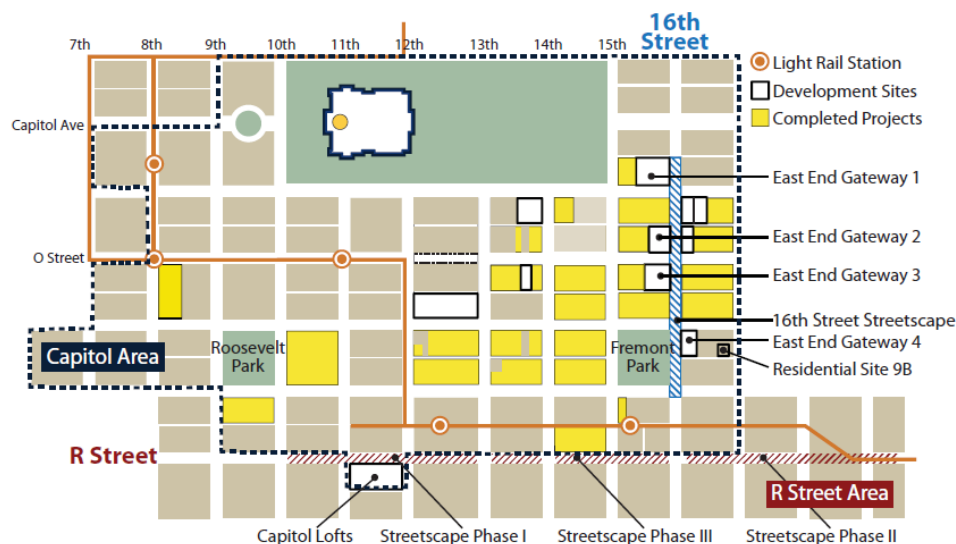
CADA is administered by a five member governing board (Board). Two members are appointed by the Director of DGS, two members are appointed by the City. The fifth member is appointed by the affirmative vote of at least three members of the Board and cannot be an officer of the City or the State of California. Each member serves a four-year term with no restriction on the number of terms a member may serve. The chair of the Board is selected annually by the Director of DGS from among the Board's members.

While it is a joint powers authority created by the State of California and the City of Sacramento, CADA does not receive operational support from either the State or the City. CADA's capacity to pay its salaries and operating costs depends on its ability to manage its properties and create new development opportunities. In addition to revenue received from development and housing, CADA is authorized to collect a portion of taxes levied on property within the Capitol Area pursuant to Government Code section 8183, and to use this tax increment revenue to carry out its activities.

The Capitol Area encompasses approximately 167 acres (65 city blocks), is principally developed, and includes two sub-areas--the Original Area of 138 acres and the R Street Area of 29 acres. The boundaries of the Original Area generally encompass L Street to the north, R Street to the south (except that portion lying between 11th and 12th Street, where the southern boundary is the alley lying between R and S Streets, on the west by 7th Street and on east by 17th Street. The Government Code section 8180 excludes the area bounded by Q Street to the north, R Street to the south, 7th Street to the west and 8th Street to the east. The Original Area contains State and commercial offices and retail space, the State Capitol and residential property. The Original Area includes State and Commercial office and retail space, the State Capitol and residential uses.

The R Street Area was added to the Capitol Area during the 2002 Legislative session under Senate Bill 1460. The R Street Area encompasses the area which is bounded on

the north by Q Street, on the south by S street, on the west by 17th Street, and on the east by the westerly edge of the current right-of-way for the rail lines running north and south between 19th and 20th Streets, and which is bounded on the north by R street, except that portion lying between 11th and 12th Street which northern boundary is the alley lying between R and S Streets, on the south by S Street, on the west by 10th Street, and on the east by 17th Street. The R Street Area includes primarily commercial and industrial uses.



CREDIT ANALYSIS

Tax Increment Review Basis

CADA submitted a Fiscal Consultant Report prepared by Fraser & Associates dated May 2013 (Report). Staff has relied on the Report and information from CADA to complete a credit analysis of the availability of tax increment to repay the proposed I-Bank financing, and to make a determination as to whether the available tax increment meet current I-Bank underwriting criteria.

The Report includes an analysis of tax increment and other data for both sub-areas—the Original Area and the R Street Area. Staff determined that combining the major property tax assesses from both subareas exceeded the taxpayer concentration limits set forth in the tax increment credit criteria that are part of the Criteria, Priorities and Guidelines for the ISRF Program. As such, since the Project is located in the Original Area, the following credit analysis reflects tax increment from only the Original Area (Tax Increment) and not the R Street Area.

Tax Increment/Indebtedness Limitation

According to the Report, the Original Area does not have a cumulative tax increment limit, a limit on bonded indebtedness, or time limits for the establishment and repayment of debt or the effectiveness of the Capitol Area Plan. The Report also indicates that the JPA expires in July 2042, or such time thereafter as any bonds then outstanding are paid.

The Capitol Area Plan (Plan) is subject to the following limits:

Plan Limits	
Acres	138
Date Adopted	July 1, 1978
Base Year	1979-1980 Tax Roll
Base year Assessed Value	\$33,495,411
Tax Increment Cap	None
Bond Limit	None
Bonds Issued to date	\$12,260,000

Source: Report

The proposed ISRF Program financing will not cause CADA to exceed the JPA's expiration date of July 1, 2042.

Original Area Valuation

The chart below reflects the Original Area land use data as of fiscal year (FY) 2012-2013 by parcel and taxable value:

Land Use Category Summary FY 2012-2013			
	Parcels	Taxable Value	% of Total
Residential	317	\$94,395,64	40.6%
Commercial	66	64,505,519	27.7%
Industrial	12	3,987,179	1.7%
Recreational	2	9,864,213	4.2%
Government	297		
Miscellaneous	2		
Vacant Land	16	5,283,700	2.3%
Total Secured	712	\$178,016,260	76.5%
Unsecured/SBE ⁽¹⁾	0	\$54,631,051	23.5%
GRAND TOTAL	712	\$232,647,31	100%

Source: Report

⁽¹⁾ State Board of Equalization.

The Original Area contains State and commercial office and retail space, the State Capitol and residential property. The Original Area contains 297 State-owned lots that do not generate tax increment.

The chart below reflects the historical property and incremental valuation in the Original Area:

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Secured	\$192,295,603	\$183,655,907	\$183,614,052	\$183,368,410	\$178,016,260
Unsecured	\$43,805,335	\$40,243,142	\$47,582,700	\$64,096,192	\$54,631,051
Total Taxable Value (TV)	\$236,100,938	\$223,899,049	\$231,196,752	\$247,464,602	\$232,647,311
Less: Base Year Value (BV)	\$33,495,411	\$33,495,411	\$33,495,411	\$33,495,411	\$33,495,411
Incremental Valuation	\$202,605,527	\$190,403,638	\$197,701,341	\$213,969,191	\$199,151,900
\$ growth	N/A	(\$12,201,889)	\$7,297,703	\$16,267,850	(\$14,817,291)
% growth	N/A	-6%	4%	8%	-7%
Unsecured Assessed Value/TV (%)	18.6%	18.0%	20.6%	25.9%	23.5%
Volatility Ratio = BV/TV (%)	14.2%	15.0%	14.5%	13.5%	14.4%
Source: Report					

Over the five-year period, total taxable value has declined slightly from \$236.1 million in 2008-09 to \$232.6 million in 2012-13, or a 1.5% decrease. The incremental valuation declined from \$202.6 million to \$199.2 million or a 1.7% decrease for the same period.

Secured values have been declining since FY 2008-09, mainly caused by the residential Proposition 8 adjustments related to the downturn in the economy since 2008. Proposition 8 allows property values to be reduced if there is a decline in market values below the current assessed value. Values can be reduced based on a formal appeal or they can be set by the county assessor. When the circumstance that caused the decline is reversed, the value of the property can be increased up to the factored base year value of the property. The properties principally reviewed for automatic reductions by the County Assessor were single family homes and condominiums between 2003 and December 31, 2011. This action caused taxable value reduction by \$8.6 million in FY 2009-10.

Additionally, in FY 2012-13, there were two successful appeals that reduced the secured and unsecured values. Griffin Capital Investments, the number one assessee in the Original Area, was reduced by \$8.7 million in secured value. Comcast Cable's unsecured value (for cable lines in the public right of way) was reduced by \$11.6 million. The Report indicated the reductions were somewhat offset by additional growth.

Top Ten Local Secured Taxpayers

The following chart reflects the top ten property taxpayers for the Original Area for the FY 2012-2013:

Ten Major Property Tax Assessment-Original Area				
Top Property Tax Payer		Use	Assessed Value (AV)	Percentage of AV
1	Griffin Capital Investments LLC	Commercial	\$28,000,000	12.04%
2	Comcast of Sacramento II	Cable company	\$27,737,156	11.92%
3	14th P Corporation Homestead Western	Residential	\$17,190,655	7.39%
4	Hines REIT 1515 S Street LP (3)	Commercial	\$11,369,573	4.89%
5	Fremont Downtown Sacramento Partners (3)	Residential	\$9,989,477	4.29%
6	CADA Apartment Tenants	Residential	\$6,565,000	2.82%
7	Hofman Company	Recreational	\$6,356,096	2.73%
8	State Emp Bldg Corporation	Commercial	\$4,169,389	1.79%
9	El Mirador	Commercial	\$3,557,093	1.53%
10	Sutter Club	Recreational	\$3,523,481	1.51%
Top Ten Total			\$118,457,920	50.92%
TV FY 2012-13			\$232,647,311	100.00%
Source: Report				

The top ten secured property taxpayers own mainly commercial and residential property in the Original Area. Additionally there are two recreational and one cable company properties. The Original Area's top five taxpayers comprise approximately 40.53% of the total taxable value.

Debt Analysis. The following chart reflects the outstanding indebtedness and the proposed I-Bank financing (data is from the actual debt documents):

Outstanding Debt	Effective Date	Amount Outstanding as of 6/30/13	Interest Rate	Maximum Annual Debt Service (MADS)	Maturity	Pledged Revenue / Tax Increment Lien Priority
2004 Tax Allocation Bonds (2004 TABs)	7/14/2004	\$10,585,000	3% to 4.875%	\$854,126	10/1/2034	Pledge of Capitol Area tax increment revenue inclusive of housing set-aside. / Senior lien.
Sacramento Housing Redevelopment Agency (SHRA) Note Payable	6/27/2002	\$250,000	0%	\$25,000	7/1/2022	Pledge of Capitol Area tax increment revenue net of housing set-aside. / Subordinate to 2004 TABs
Sacramento Housing Redevelopment Agency (SHRA) Note Payable	12/15/2004	\$112,800	2%	\$42,400	3/1/2016	Pledge of Capitol Area tax increment revenue net of housing set-aside. / Subordinate to 2004 TABs
Department of General Services (DGS) Promissory Note (EEG 1) ⁽¹⁾	12/30/2005	\$996,281	1.98%	\$73,261	12/1/2028	Pledge of tax increment revenue from the EEG 1 development. / Subordinate to 2004 TABs and SHRA notes.
Department of General Services (DGS) Promissory Note (EEG 2)	12/30/2006	\$345,921	1.98%	\$23,036	12/1/2028	Pledge of tax increment revenue from the EEG 1 development. / Subordinate to 2004 TABs and SHRA notes.
Department of General Services (DGS) Promissory Note (EEG 3)	12/30/2007	\$313,234	1.98%	\$36,314	12/1/2028	Pledge of tax increment revenue from the EEG 1 development. / Subordinate to 2004 TABs and SHRA notes.
Department of General Services (DGS) Promissory Note (EEG 4)	12/30/2008	\$509,733	1.98%	\$37,491	12/1/2028	Pledge of tax increment revenue from the EEG 1 development. / Subordinate to 2004 TABs and SHRA notes.
Proposed I-Bank ISRF Program Loan ⁽²⁾	9/1/2013	\$600,000	3%	\$42,000	8/1/2023	Pledge of Capitol Area tax increment revenue net of housing setaside. / Subordinate to 2004 TABs, SHRA and DGS.
Disposition and Development Agreement DDA EEG--1	8/24/2012	\$0	N/A	\$166,135	For 10 years	Pledge of Capitol Area tax increment revenue net of housing setaside. / Subordinate to 2004 TABs, SHRA and DGS/ on parity with ISRF Program Loan.
Disposition and Development Agreement DDA EEG--2 & 3	Projected to start 2014-15	\$0	N/A	\$78,135	Projected 2023-24	Rebate of property tax.
Total		\$13,712,969		\$1,299,763		

(1) EEG means East End Gateway.

(2) Interest rate and MADS estimated.

2004 TABs. In 2004, CADA issued Tax Allocation Bonds, Series A&B in the amount of \$12,260,000. The Bonds are paid from both the housing set-aside and non-housing set-aside tax increment revenues. The 2004 TABs allow parity debt via a supplemental indenture.

SHRA Notes Payable. CADA entered into four separate loan agreements with the Sacramento Housing and Redevelopment Agency, only two of which require a pledge of tax increment net of housing set-aside from the Capitol Area as repayment of these obligations as shown on the chart above. The 2004 SHRA Note Payable does not allow any senior or parity debt.

DGS Promissory Notes. CADA entered into four Promissory Notes with the California DGS that include a pledge of certain tax increment revenues generated from specific development projects in the East End Gateway area to repay the notes. The DGS Promissory Notes do not contain any provisions for senior or parity debt, and CADA has requested that the DGS Promissory Notes be senior to the ISRF Program financing.

Proposed ISRF Program Tax Allocation Loan. The chart above reflects the proposed ISRF Program loan with an estimate for the interest rate and the payment amount. Staff is recommending that CADA pledge Original Area tax increment revenue net of the housing set aside. Given the prior existing debt tax increment pledges and CADA's request that the I-Bank loan be subordinate to the DGS Promissory Notes, it is proposed that the ISRF Program loan be subordinate to the 2004 TABs, the two SHRA Notes Payables and the four DGS Promissory Notes.

Additionally, staff recommends (i) that CADA not be permitted to enter into, issue or incur future debt, payable from the same revenue stream that would be used to repay the proposed ISRF Program loan with a lien that would be senior to the I-Bank's lien under the proposed ISRF Program loan, (ii) that CADA not be permitted to enter into, issue or incur future debt, payable from the same revenue stream that would be used to repay the proposed ISRF Program loan with a lien on parity with the I-Bank's lien under the proposed ISRF Program loan unless such future debt satisfies an I-Bank parity debt test where revenues pledged equal at least 110% of MADS for the then existing debt, together with the proposed parity debt, and (iii) that CADA be permitted to enter into, issue or incur future debt payable from the same revenue stream that would be used to repay the proposed ISRF Program loan with a lien subordinate to the I-Bank's lien under the proposed ISRF Program loan so long as future debt satisfies an I-Bank parity debt test where revenues pledged equal at least 110% of MADS for the then existing debt, together with the proposed subordinate debt.

Disposition and Development Agreements (DDAs). CADA entered into a DDA for the EEG 2 & 3 development dated January 25, 2008 (DDA—EEG 2 & 3), which has been amended four times with the last amendment dated August 26, 2011 in which it has pledged a rebate of property taxes back to the developer.

CADA also entered into a DDA for the EEG - 1 development dated April 20, 2010 (DDA—EEG 1), which has been revised and restated on August 24, 2012 and amended two times with the last amendment dated March 22, 2013, in which it has pledged tax increment back to the developer pursuant to a specified formula on parity with the proposed ISRF Program financing. The projected payments were calculated by CADA.

Staff recommends, as a condition to I-Bank approval of the proposed ISRF Program Loan, that prior to entry into a definitive agreement between CADA and the I-Bank, CADA be required to deliver to the I-Bank signed written statements from the developer of EEG – 2 & 3, in a form satisfactory to the I-Bank, acknowledging that CADA's obligations to rebate certain property tax amounts under such DDA, would be subordinate to the I-Bank's lien under the proposed ISRF Program loan.

Further, staff recommends, as a condition to I-Bank approval of the proposed ISRF Program Loan, that concurrent with entry into a definitive agreement between CADA and the I-Bank, CADA be required to deliver to the I-Bank, a signed opinion by its legal counsel, in a form satisfactory to the I-Bank, opining that CADA has all the requisite legal authority to pledge tax increment revenues to the I-Bank pursuant to the ISRF Program loan agreement.

Cash Flow Analysis

Tax increment generated from the secured tax roll is allocated based on 100 percent of the County of Sacramento (County) calculated levy. The method is often referred to as the Teeter Plan. Under the Teeter Plan, CADA is shielded from impact of delinquent property taxes. The County does adjust secured tax increment payments for roll corrections, such as refunds of property taxes due to successfully appealed assessments. Tax increment generated from unsecured incremental value is based on actual collections of unsecured revenues on a countywide basis.

Shown in the chart below is the cash flow analysis for the Original Area for Fiscal Year 2012-2013 based upon the Report and input from the fiscal consultant:

Original Area FY 2012-2013 Estimated Tax Increment Cash Flow Analysis	
Total Valuation	\$232,647,311
Less: Base	(\$33,495,411)
Incremental Assessed Value	\$199,151,900
Tax Increment 1%	\$1,991,519
County Property Tax Administrative Charges	(\$34,671)
Gross Tax Increment	\$1,956,848
Unitary Tax	\$32,000
Total	\$1,988,848
Housing Set aside	(\$391,370)
Appeals 1% of \$14,637,685	(\$78,291)
Available Tax Increment	\$1,519,187
Maximum Annual Debt Service (MADS)	
2004 TABs ⁽¹⁾	\$672,000
SHRA Notes Payable	\$67,400
DGS Promissory Notes	\$170,102
Total Senior MADS	\$909,502
Senior MADS Debt Coverage Ratio	1.67
Proposed ISRF Program Loan \$600,000 @3% 20yr term	\$42,000
MADS to EEG --1	\$166,135
Total Aggregate MADS prior to Subordinate	\$1,117,637
Aggregate MADS Coverage Ratio	1.36
Source: Report and Fiscal Consultant	
(1) Non-housing setside bond payment.	

Deductions to Tax Increment

Housing Set-Aside. CADA is required by Government Code Section 8191 to use not less than 20% of the Tax Increment for qualified low and moderate income housing purposes.

County Administrative Fee. State law allows counties to charge taxing entities for the cost of administering the property tax collection system. The table above reflects an administrative fee of 1.70% of the Original Area tax increment.

Appeals. There are six owners with appeals totaling \$14,637,685 or 55.8% of the current assessed value of the properties, which would amount to a reduction of \$146,377 (1%) of Tax Increment. According to the Report, using the property owners' opinion of value can be misleading, the Report stated that historical appeals have resulted in approximately a 30% appeal rate in the last two fiscal years, which would amount to an approximate reduction of \$7,829,737 of property tax values and a

concomitant reduction in Tax Increment of \$78,297. Since property values have been increasing recently, staff has opted to use the 30% reduction ratio.

MADS\Lien Position. The 2004 TABs debt service payments are paid from both housing set-aside and non-housing set-aside tax increment revenues. For the purpose of the cash flow calculation shown above, and since housing set-aside was deducted from the tax increment revenues calculation, the Report and the table above reflect the non-housing portion of the 2004 TABs for the computation of cash flow.

Given CADA's request for the proposed ISRF Program loan to be subordinate to the DGS liens, staff has concluded that the lien position for the proposed ISRF Program loan should be as stated above (subordinate to the 2004 TABs, outstanding SHRA Notes Payable, the DGS Promissory Notes and on parity with DDA--EEG-1), and that there is sufficient cash flow to support such a lien position with a proposed current debt service coverage ratio of 1.36 times based upon MADS of existing and the proposed ISRF Program debt payments.

As such, the above cash flow analysis reflects good coverage to repay the proposed ISRF Program loan based upon current year Tax Increment.

Compliance with I-Bank Underwriting Criteria

Tax increment from the Original Area meets the following ISRF Program underwriting criteria as follows:

- Net tax increment revenues for the Original Area exceed the minimum 1.10 times MADS debt service coverage ratio for the proposed financing. The Original Area has more than two years of tax increment collection history.
- The top 5 taxpayers' properties do not provide in excess of 50% of the Original Area's tax increment.
- No single taxpayer in the Original Area provides in excess of 15% of the total tax increment revenue.
- The Original Area encompasses more than 50 acres.
- Unsecured personal property is less than 30% of total Original Area taxable (assessed) value.

LITIGATION, MANAGEMENT AND ENVIRONMENTAL

Litigation/Material Controversy

CADA's application states that there is currently no outstanding or anticipated litigation that would materially affect the Project or the ability to make the payments on the proposed ISRF Program loan.

Project Management

CADA, its management and staff, have over 30 years' experience developing and managing urban infill housing. CADA has built and maintained mixed income and mixed use residential structures, constructed public infrastructure, financed construction of State Office buildings as well as developed commercial projects.

CADA selected the Developer pursuant to a competitive Request for Proposals public selection process and entered into the DDA—EEG 4. Under the DDA—EEG 4, the Developer is responsible for constructing solely the Project, and has entered into a separate prevailing wage construction contract with Tricorp Hearn Construction Company (Tricorp). Per the CADA application, Tricorp has been involved with major construction projects including the State Capitol renovations, the Solano County Government Center, Tahoe Base Camp, Remote Receiving Facility at Sacramento International Airport, the Calpers Atrium, Calpers Headquarters and Modesto Junior College, among others. CADA has submitted a copy of the construction contract between the Developer and Tricorp.

California Environmental Quality Act (CEQA)

Project Component	Level Of Required Environmental Clearance	Status Of CEQA Compliance	Filed NOD Received ⁽¹⁾
Gateway Development and Project	<input type="checkbox"/> Notice of Exemption <input type="checkbox"/> Negative Declaration <input type="checkbox"/> Mitigated Neg. Dec. <input checked="" type="checkbox"/> Environmental Impact Report (EIR)	<input type="checkbox"/> In Progress Expected date: _____ <input checked="" type="checkbox"/> Adopted/Approved on April 22, 2005.	<input type="checkbox"/> Yes Filed with County Recorder on: _____ <input checked="" type="checkbox"/> No

⁽¹⁾ Means Notice of Determination.

CADA is the lead agency for the Gateway Development and the Project environmental review and approved an EIR in 2005. CADA subsequently approved three addendums to the EIR on April 22, 2005, December 9, 2005, and August 24, 2012. According to CADA, the 180-day statute of limitation for the latest addendum approved on August 24, 2012, has expired and no challenges were received.

SCORING CRITERIA FOR PRIORITIZING PROJECTS

POINT CATEGORY	ANALYSIS	MAX PTS	PTS
Project Impact			
Job Creation/Retention	CADA has submitted the Vivelan Report indicating that the construction of a project similar to the Project is anticipated to generate approximately 227 construction related jobs and 40 full-time retail related jobs and 15 part-time retail related jobs. Considering only the full-time jobs based on a feasibility study, the jobs created per dollar of ISRF Program financing is as follows: $\$600,000/40 = \$15,000$.	30	26
Economic Base Employers	The Project will not create/retain jobs with Economic Base Employers.	10	0
Community Employment Plan	No Community Employment Plan was submitted by CADA.	10	0
Quality of Life/Community Amenities	<p>The Project fulfills the following CADA 2008-2013 Strategic Plan goals and strategies:</p> <ul style="list-style-type: none"> Promote retail that contributes to neighborhood vitality. Create a community with distinct and appealing sense of place. Identify housing opportunity sites and advocate for higher density project. Provide neighborhood amenities and streetscape improvements. <p>The Project would implement residential and community-oriented goals identified in the 1997 Capitol Area Plan, including:</p> <ul style="list-style-type: none"> Housing Objective: To foster housing within the Capitol Area meeting a wide range of income levels and restoring the area to a population consistent with its urban surroundings. Community Objective: To stimulate the development of a community within the Capitol Area which is attractive and comfortable to work in, live in, and visit, which is integrated into the fabric of the rest of the City, and which is physically and economically viable over the long term. 	30	30
Community Economic Need			
Unemployment Rate	The 2012 unemployment rate for the City was 12.4%, which is 118.1% above the State's unemployment rate of 10.5%.	20	0
Median Family Income	According to the Census American Community Survey's figures 2007-11 (5-year) dated December 6, 2012, the City's median family income was \$57,192 or 81.43% of the State's comparable median family income of \$70,231.	15	0
Change in Labor Force Employment	The City's 2012 change in labor force employment rate grew 2.38% from the prior year, as compared with the State's 2012 change in labor force employment growth rate of 1.99%.	10	0
Poverty Rate	According to the Census American Community Survey's figures for 2007-11 (5-year) data published on December 6, 2012, the City's poverty rate was 18.6% or 129% more than the State's comparable Census poverty rate of 14.4%.	10	7

Land Use, Environmental Protection and Approved Housing Element			
Land Use	The Project meets the first priority for urban land use development as it renews and maintains an existing urban area.	20	20
Environmental Protection	<p>Part of the ISRF Program loan will finance the purchase and installation of three storm water planters. These planters collect and treat storm water using bioretention. Bioretention systems collect and filter storm water through layers of mulch, soil and plant root systems, where pollutants such as bacteria, nitrogen, phosphorous, heavy metals, oil and grease are retained, degraded and absorbed. The benefits of the storm water planters are:</p> <ul style="list-style-type: none"> • Reduces storm water runoff volume, flow rate and temperature. • Increases groundwater infiltration and recharge. • Treats storm water runoff. • Improves quality of local surface waterways. <p>Additionally, by providing for more local retail opportunities, the Project and the Gateway Development will help minimize travel time on local roads as residents may fulfill some retail needs locally rather than traveling to other parts of the City resulting in reduced fuel usage and vehicle emission.</p> <p>While not directly financed by the ISRF Program loan, CADA's application indicates that the Gateway Development will be energy efficient and will use reasonable efforts to incorporate all additional sustainable construction practices in the proposed private development project, and that the Developer also intends to use the LEED Platinum scorecard. Furthermore, the Gateway Development will feature a vertical urban farm and aquaponics system to promote urban farming and community gardens in the urban core of the City.</p>	10	10
Housing Element	The City has an approved Department of Housing and Community Development General Plan Housing Element.	10	10
Leverage			
Leverage	<p>Given that the Project is a necessary and vital part of the Gateway Development, the financing for the Gateway Development should be included in the leverage calculation.</p> <p>The ratio of other funding to the ISRF Program financing is as follows: $(\\$16,806,044 + \\$17,000) / \\$600,000$ or \$28.03 to \$1.00 for the Project</p>	15	15
Readiness			
Readiness	CADA anticipates starting Project construction in one month.	10	10
TOTAL		200	128

STAFF RECOMMENDATIONS

Staff recommends approval of Resolution No. 13-14 authorizing financing not to exceed \$600,000 for the Capitol Area Development Authority (CADA) for the Project subject to the following conditions:

1. **Applicant/Borrower:** Capitol Area Development Authority (CADA).
2. **Amount of Financing:** Not to exceed an amount of \$600,000.
3. **Maturity:** Not to exceed 20 years.
4. **Funding Availability:** I-Bank's financing commitment is subject to the availability of funds from either, or a combination of, proceeds of a revenue bond issue or I-Bank equity funds.
5. **Repayment/Security:** Net tax increment revenues from the Original Area subordinate to the 2004 Tax Allocation Bonds (2004 TABs), Sacramento Housing and Redevelopment Agency (SHRA) Notes Payable and the California Department of General Services (DGS) Promissory Notes.
6. **Interest Rate:** 67% of Thompson's Municipal Market Data Index for an "A" rated tax-exempt security with a weighted average life similar to the I-Bank financing based on the rates on August 1, 2013.
7. **Fees:** Financing origination fee of .85% of the I-Bank financing and an annual fee of .30% of the outstanding principal balance.
8. **Type of Financing Agreement:** Tax Allocation Loan Agreement.
9. **Financing Agreement Covenants:**
 - a. I-Bank Tax Allocation Loan Agreement interest payment dates on April 1 and October 1, and principal and annual fee payment dates on October 1.
 - b. Borrower shall not, so long as the Tax Allocation Loan Agreement is outstanding, issue or incur any obligations payable from or secured by Original Area tax increment superior to the pledge of revenues for the Tax Allocation Loan Agreement.
 - c. The I-Bank financing is in subordinate to the 2004 TABs, SHRA Notes Payable DGS Promissory Notes and on parity with the Revised and Restated Disposition and Development Agreement for the East End Gateway Site 1 dated August 24, 2012, as amended, with an agreement covenant allowing the following additional debt:
 - i. Additional parity debt if Original Area net tax increment revenues based on the current finalized assessment rolls, as reflected in an independent fiscal consultant's report, will provide a 1.10 times maximum annual debt service coverage for parity debt, inclusive of the proposed parity debt. The payment dates on the additional parity debt must match the payment dates on the I-Bank financing.
 - ii. Additional subordinate debt if net tax increment revenues based on the current finalized assessment rolls, as reflected in an independent fiscal consultant's report, will provide a 1.10 times aggregate maximum annual debt service, inclusive of the proposed subordinate debt. The payment dates on the proposed subordinate debt must match the payment dates on the I-Bank financing.

- d. The Borrower shall be authorized to prepay all or a portion of the outstanding principal balance according to the following: 102% of the outstanding principal balance if the prepayment date is on or after ten years, but less than eleven years, from the effective date of the Agreement, or 100% of the outstanding principal amount of the I-Bank bonds to which the Borrower's loan payments are pledged to repay and scheduled to be called for redemption as a result of the prepayment plus accrued interest on the bonds to be redeemed as of the date scheduled for redemption (Redemption Amount), whichever is greater; 101% of the outstanding principal balance if the prepayment date is on or after eleven years, but less than twelve years, from the effective date of the Agreement or the Redemption Amount, whichever is greater; or without premium if the prepayment date is twelve years or more from the effective date of the Agreement or the Redemption Amount, whichever is greater. The Borrower may on any date provide for a legal defeasance of the principal amount outstanding and any additional payment then due.
 - e. An agreement by Borrower to indemnify I-Bank and its directors, officers and employees from any liability arising from the Loan Agreement or from construction or operation of the Infrastructure Project.
- 10. **Conditions Precedent to Agreement Execution by I-Bank:**
 - a. Adopted Borrower resolution authorizing the execution and delivery of the Tax Increment Loan Agreement and approving certain other matters in connection therewith.
 - b. Receipt of an opinion of legal counsel to Borrower, that Borrower has the legal authority to enter into the Tax Allocation Loan Agreement, that there is no litigation currently pending or threatened that would in any way affect pledged tax increment revenues, and that the Agreement is a legal, binding and enforceable agreement of Borrower.
 - c. Executed Tax Certificate.
- 11. **Conditions Precedent to Initial Disbursement:** The following are some of the conditions, which will be required precedent to the initial disbursement of I-Bank funds:
 - a. Execution by Borrower of a Tax Increment Loan Agreement consistent with the terms contained herein.
 - b. Certification by Borrower that the Project is in compliance with the Capitol Area Plan.
 - c. Evidence of workers' compensation insurance covering all Borrower employees.
 - d. Borrower to provide documentation acceptable to the I-Bank that the 16 Powerhouse Investors, LLC has meet all Farmers and Merchants Bank construction loan pre-disbursement conditions.
- 12. **Conditions Precedent to Construction Disbursement For Each Project Phase:**
 - a. Certification by the Borrower's Director or legal counsel that:
 - i. Borrower has obtained the land, rights-of-way, easements, and orders of possession that are required for construction.

- ii. All required permits have been obtained.
- b. For each construction contract:
 - i. A written statement by Borrower's Director or legal counsel that:
 - 1. The contract and subcontracts been awarded, and were awarded pursuant to competitive bidding and Borrower procedures normally required for similar construction projects.
 - 2. Construction costs are consistent with the Sources and Uses listed in this staff report; and
 - 3. The prime contractor is required to maintain appropriate builder's risk insurance and name Borrower as additional insured and loss payee, the contract requires the contractor to maintain liability insurance and name Borrower as an additional insured, and includes performance and payment bond provisions and names Borrower as additional payee.
 - 4. All construction contracts are let to the lowest responsible bidder at a fixed price subject to increase only for allowable extra work, change orders approved by Borrower, and damages or delays authorized by the laws of the State.
 - 5. All contracts and subcontracts require payment of prevailing wage rates and compliance with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the California Labor Code; require payment of workers' compensation insurance by contractors and subcontractors.
 - 6. All construction contracts include the nondiscrimination provisions.
 - ii. Submittal of a copy of the complete construction contract.
 - iii. Submittal of a copy of the contractor's builder's risk insurance policy, and a copy of the contractor's payment and performance bonds.
- 13. **Conditions Precedent to Final Disbursement:** The following are some of the conditions precedent to final disbursement of I-Bank funds:
 - a. Recorded Project Notice of Completion.
 - b. Lien waivers for the Project, or passage of the applicable statutory time periods for filing mechanics and other similar liens.
 - c. Certification that the Project has been completed in accordance with the approved plans and specifications, and that the completed Project is consistent with the definition of Project in this staff report and is acceptable to Borrower.
 - d. Project operating permits. If applicable.
- 14. **Financial and Other Reporting Requirements:**
 - a. Audited annual Borrower financial statements, due within 210 days of fiscal year end, or such other time that is acceptable to I-Bank.
 - b. Other reasonable information as I-Bank may request from time to time.

EXHIBIT 1--MAPS

Project Map



LEGEND

- CONCRETE
- ASPHALT
- PAVEMENT
- GRAVEL
- SOIL
- LANDSCAPE
- PLANTING
- WATER
- SEWER
- STORM
- UTILITY
- STRUCTURE
- FINISH
- MECHANICAL
- ELECTRICAL
- TELEPHONE
- TELEVISION
- RADIO
- TELEGRAPH
- TELETYPE
- TELEFAX
- TELEVISION
- RADIO
- TELEGRAPH
- TELETYPE
- TELEFAX

the GATEWAY on Fremont Park
PROGRESS PRICING SET 6.01.11

GROUND LEVEL FLOOR PLAN

A2.0